



Reliable Energy • Dependable Service

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Debbie Dietz, Rates Manager
Sierra Nevada Customer Service Region
Western Area Power Administration
114 Parkshore Drive
Folsom, CA 95630

Dear Ms. Dietz:

Thank you for the opportunity to comment on Western's proposed rates for the post 2004 period. Roseville has reviewed Western's 2005 Proposed Rates Adjustment brochure and has several comments.

Roseville is the largest Western customer solely connected to Western's electric system. Roseville is directly and significantly impacted by Western's recent choice to operate its system as a sub-control area of the SMUD control area. Roseville will bear a substantial portion of the sub-control area costs and is very alarmed at the cost impact of the proposed rates for control area services. For example, Roseville's estimated cost for regulation service at the proposed Western rate is about twice what Roseville currently pays for regulation service on the ISO system for its total load.

As part of our review, Roseville compared the proposed rates for ancillary services to the information presented in May 2003 at Western's preliminary rate meeting. Roseville found the information provided in 2003 to be quite favorable. The current proposed rates are several times higher than the rates presented in 2003 as shown in the table below. Western has not provided any explanation of why the rates have risen so dramatically since May 2003 and whether or not this volatility is expected to continue.

Service	May 2003 Per Unit Cost	May 2004 Per Unit Cost	Percent Increase
SSC&D	\$60.00/E-tag	By Contract	N/A
Reactive Power & Voltage Control	\$.07/kW-mo	Assigned to transmission system	N/A
Operating Reserve – Spinning	\$.31/kW-mo	\$3.30/kW-mo	965%
Operating Reserve – Supplemental Reserve Service (Non-spin)	\$.19/kW-mo	\$2.52/kW-mo	1226%
Regulation and Frequency Response (if in the Federal control area)	\$.40/kW-mo	\$6.33/kW-mo	1483%

Western needs to assure its customers, and in particular its direct connected customers who will bear a substantial portion of the sub-control area costs, that the control area decision and resulting rates will continue to meet the criteria Western used for evaluating its operating alternatives. The criteria that most concern Roseville are cost certainty and cost effectiveness.

Regulation Service

The underlying revenue requirement in the proposed rate for regulation includes \$1,372,079 for energy purchases to replace generation that is lost when the BOR plants are backed down to produce room for regulation during heavy water flow periods. Western recently sent out a letter indicating it was modifying the rate proposal and removing this cost from the sub-control area regulation revenue requirement. Western is making the same modification to the revenue requirement for spin and non-spin. The letter also stated that if Western incurred purchase costs for these services the costs, would be added to the revenue requirement. Roseville believes that using, or in this case foregoing, CVP energy production to support the sub-control area is a suitable use of CVP energy. The cost of any foregone generation is a system cost that should be spread to all customers. Roseville believes it is equitable that all of Western's customers who ostensibly supported the sub-control area operational alternative share in the cost outcome of that decision.

Network Integration Transmission Service (NITS)

The load ratio share defined in the 2005 Proposed Rates Adjustment brochure is calculated as the NITS customer's coincident load at the time of the transmission system peak divided by the transmission system peak. Since a part of each NITS customer's coincident load is served by Base Resource and Base Resource is already allocated a transmission system service cost, the formula needs to be modified to reduce the customer's coincident load by its Base Resource delivery at the time of the transmission system peak. We understand that Western is contemplating a change in the load ratio share formula as follows:

The sum of a NITS customer's coincident load less Base Resource plus behind the meter generation, divided by the transmission system load, all at the time of the transmission system peak.

This expected change is consistent with what Roseville believes is the correct way to calculate load ratio share.

Allocation of Transmission Costs to Western Base Resource

Western is proposing a significant change in the way it allocates the cost of the CVP transmission system to Western power deliveries. Currently, Western reserves transmission capacity for the CVP generating plants based on the maximum output of the plants during normal operating conditions. The reservation assures Western that transmission capacity is always available for CVP generation.

In the rate proposal, CVP generation is provided a varying amount of transmission capacity each month (via NITS) equal to the expected monthly CVP generation determined in March of the prior fiscal year. As a result, the amount of transmission system allocated to CVP generation decreases and the effective average per unit transmission cost increases by 63%. In fact, if the proposed methodology is recalculated using the dry year CVP generation expectation in Western's Green Book, the per unit transmission cost increases by another 11% due to the decreased usage by the CVP generating plants. The proposed transmission system allocation methodology produces substantial

swings in the annual cost of transmission service for the other transmission service customers whose transmission system usage is more relatively stable.

Western has stated that when CVP generation is low, such as in the fall and early winter, the transmission system is available for other uses such as short-term sales. In reality, there is little other use for Western's transmission system except by the direct connected customers whose loads are already factored into the cost allocation. In our estimation there is virtually no reasonable expectation that short-term transmission service on Western's 230 kV network system will be sold within the foreseeable future. First, there are no loads that will not have already secured their required transmission service. Second, there are no anticipated new generators that might otherwise rely on short-term transmission service. Finally, Western has no uncommitted generation that has not already had transmission allocated to it. We have discussed and received concurrence of this opinion from Western's management in charge of transmission service.

The primary purpose of the CVP transmission system is to provide transmission for CVP generation and Western needs to guarantee that sufficient transmission capacity is always available for the plants. Roseville believes that Western should continue to reserve and allocate a portion of the CVP transmission system to CVP generation based on the maximum generating capability under normal operating conditions. If excess transmission capacity is available and if short-term transmission sales do materialize, Western can credit the sales revenue against its transmission revenue requirement and reduce the transmission service costs for base resource and project use.

BAMx Proposal

At Western's June 17, 2004, Public Information Forum for the proposed rates, the Bay Area Municipal Transmission Group (BAMx) proposed that Western eliminate what they term "stacked" transmission charges on Base Resource deliveries to non-direct connected customers by rolling their ISO delivery charges for Base Resource into the Western transmission revenue requirement. The BAMx issue is similar to Roseville's long standing issue with Western regarding pancaked transmission charges on deliveries of power to Roseville from our ISO based resources. Roseville believes the BAMx proposal would eliminate pancaking on Western power deliveries for only a subset of Western customers and shift significant costs from the non-direct connected customers to the direct connected customers by raising the Western transmission revenue requirement and therefore the Western transmission rate. Roseville would object to the inequity of such a rate design. Further, Roseville suggests Western may not have the authority to roll-in any costs into its rates in a mandatory manner that is not directly a function of service on Western's facilities. Nevertheless, Roseville would support an investigation of a program that would enable elimination of pancaked rates for all Western customers. In the long-term it would be worthwhile for Western to consider being the "transmission provider" for all power supply over the appropriate transmission facilities to all of its customers.

Sub-Control Area Decision

Western announced its choice to operate a sub-control area in conjunction with the SMUD control area during the rate comment period. Many of the proposed rates appear to fit the format of the ISO control area, not SMUD's control area, and Western will need to make substantial revisions to the proposed rates to accommodate the sub-control area decision.

Roseville recently received the draft Interconnected Operations Agreement (IOA) from Western. The terms of service in the IOA are substantially different from those indicated in the rate brochure. For

example, the rate brochure states the sub-control area requirements for spin and non-spin are 50 MW each and that the individual customer allocation will be based on its respective hourly load in proportion to the total sub-control area load. The IOA states the combined spin and non-spin requirement is 165 MW and is allocated to customers based on their contribution to the system's annual peak load. Further confusing the matter is the draft agreement between SMUD and Western for interconnected operations, which states that Western's contingency reserve requirement is 195 MW. The level of service required, the cost associated with providing the service and the methodology for allocating the service level and costs to Western customers are all in a state of flux. Western will need to change the rate design to accommodate the terms of service in the IOA and/or the SMUD agreement and Roseville will require time to review the proposed changes. Roseville believes Western should extend the customer comment and input period in order to address these revisions.

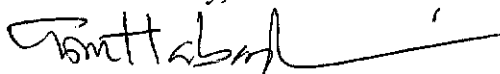
Additionally, rate changes may be necessary to accommodate the outcome of settlement talks in the FERC Docket ER04-688, *et al* dealing with termination of Contracts 2947A, 2948A, etc. An opportunity should be available in order to comment on resulting Western rates, as they may occur.

In summary, Roseville is asking Western to:

- Ensure its rate design is consistent with the cost certainty and cost effectiveness evaluation criteria used for the operating alternative decision.
- Remove the cost of replacement energy purchases from the regulation revenue requirement.
- Redefine load ratio share for NITS customers.
- Reserve and allocate a portion of the CVP transmission system to CVP generation based on the maximum generating capability under normal operating conditions.
- Reject the BAMx proposal and pursue a long-term solution to rate pancaking.
- Provide its customers an opportunity to evaluate and comment on substantial revisions to the rate proposal.

Thank you for the opportunity to comment on Western's 2005 rates proposal. Roseville looks forward to working with Western to ensure that the rates for both transmission service and the anticipated sub-control area are fair and equitable and contribute to reliable and cost effective operations.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Habashi", with a long horizontal flourish extending to the right.

Tom Habashi
Utility Director